PEREGRINE PETROLEUM LTD.

1982
Annual Report

Corporate Information

OFFICERS AND DIRECTORS;
Cameron J. McFeely, P.Eng.
President and Director

Lorna R. Ferris
Secretary and Director

Peter G. Smith
Director

Charles S. Dunkley, P.Eng.
Director

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TRANSFER AGENT:
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AUDITORS:
Coopers & Lybrand
Calgary, Alberta

STOCK EXCHANGE LISTING:
The Alberta Stock Exchange
Trading Symbol "PGR"

Letter to Shareholders

As we all know, the future of this company depends largely on our 50% ownership of the Mosquito Creek Mine at Wells, British Columbia. Fortunately, the future appears very bright.

Our problem during the last 18 months has been simply lack of working capital and up to now we could do nothing about it. Now, owing to the burgeoning gold market, money is readily available for gold ventures. The fact that we have an excellent producing property with an exceptionally good grade of ore, a new mill with all the "bugs" out of it, i.e., an established producing property with all the necessary infrastructure — needing only working capital to upgrade it to an efficient and profitable producer, makes this an attractive project to finance.

Our partner, The Mosquito Creek Gold Mining Company Limited, is currently arranging a financing on the Vancouver Stock Exchange to provide its share of the money necessary to upgrade the mine. This money will be used to pay for a program of ore reserves development to make up for past neglect. This financing is expected to be consummated in April of this year and will be followed by a financing by Peregrine Petroleum Ltd. for our share of these expenses. Details of the Peregrine financing will be announced when a suitable deal has been structured.

Needless to say, our activities in general during the past year have been severely curtailed owing to the lack of working capital as mentioned above. However, we now have every reason for optimism as we can look forward to both an infusion of cash into the treasury and in due course, substantial cash flow from a profitable gold mining operation which will provide funds for debt repayment and for exposure to other exploration ventures.

Submitted on behalf of the Board

C. J. McFeely, P.Eng.,
President

The Mosquito Creek Gold Mine

The mine has survived a difficult year and we are now in a position to obtain financing for the necessary programs to develop reserves and upgrade haulage capacity.

L. P. Starck and Associates of Vancouver, British Columbia, have been retained to design and supervise the program to attain these objectives.

Briefly, they have recommended a two-stage program summarized as follows:

Stage 1 —

Surface geological and geophysical surveys, diamond drilling and trenching; 220 feet of adit entry to connect with level #1 to provide haulage for exploration and development waste on this level; 1,000 feet of exploratory drilling on this level with ancillary cross-cutting and diamond drilling; a similar program on level #2 involving a 550 foot adit drift and 800 feet of exploration drifting with related cross-cutting and diamond drilling. These new exits ensure that the exploratory and development waste need not be a burden on the hoisting facilities and current mining operations.

Stage 2 —

Shaft sinking for at least two more levels below #4 level, modifying ore and waste passes from #3 level to the bottom level; pockets and loading chutes below the bottom level and in the shaft above #2 level to permit haulage to surface through the #2 level adit. By virtue of the new exits, when the main shaft is being deepened, the mine can be kept in operation.

The estimated cost for the two stages is in the order of $4.5 million; for stage one it is in the order of $2.5 million.

The following table is an estimate of income to be realized at the expected range of ore grades for a yearly throughput of 33,600 tons (approximately 100 tons/day) at various gold prices. It is entirely possible that a successful exploration and development program will support a throughput of 150 tons/day with proportionately higher revenues.

Assay Oz/Au Ton	Gold Price Per Ounce Canadian Dollars ($U.S. Approximate)			
	$550 ($440)	$600 ($488)	$700 ($560)	$800 ($640)
	Estimated Operating Profit 12 Month Period (33,600 tons/year)			
0.40	$ 745,920	$1,357,440	$2,580,480	$3,803,520
0.45	1,586,760	2,274,720	3,650,640	5,026,560
0.50	2,442,760	3,192,000	4,720,800	6,249,600

We anticipate the initiation of the program in April of this year.

Wyoming Coal Project

This project is being abandoned — principally for lack of working capital to pursue it. Owing to the depression of the world economy, potential participants which we needed to share the financial burdens and with whom we had every reason to expect participation simply faded away. We still have our 25,000-acre exploration permit, but have surrendered the lease because of the onerous schedule of payments required to hold it. It is not likely that we will proceed further with this venture if for no other reason than that our 50% partner in the project is without funds.

U.S. Oil and Gas Properties

We have been following a policy of reducing our obligations wherever possible by farmout and outright sale wherever a reasonable price can be negotiated. We still hold 50% in approximately 50,000 acres in Montana, acreage which we feel is a good prospect for farmout. We drilled a follow-up well on our 22,000-acre block in South Dakota (Peregrine 12.5%); the well was dry and these leases will be dropped. We sold our large block in southwestern Montana (70,000 acres — Peregrine 8%) and retained a small overriding royalty.

Canada

In general, revenue from our oil and gas wells in Canada is sufficient to service our bank loan, pay rentals, office overhead and salaries. We participated in one unsuccessful well at Coutts, Alberta (Peregrine 25%) and in the acquisition of an 160-acre spacing unit at Nipisi, Alberta (Peregrine 25%). This parcel has been farmed out with a drilling commitment, Peregrine recovering its acquisition costs and retaining a royalty through payout, convertible to an 8.75% working interest after payout.

We have put two oil wells into the Little Bow Upper Mannville "J" Unit; Peregrine's participation in the Unit is 2.1275% (oil zone), 4.161% (gas cap).

At Holmberg, Alberta we participated in a triple-zone gas well. We now have interests (1.56% - 2.5%) in 12 gas wells. Five of these wells will be tied into a gas plant at Duhamel this year.

We do not anticipate much activity in Canadian oil and gas until we are able to finance the projects largely by cash flow from the gold mine.

Miscellaneous

Northeast Australia

Subsequent to year end we have acquired the following interest in exploration permits in N.E. Australia:

1. 1% gross overriding royalty on ATP 317P, Townsville, Australia (4.5 million acres).
2. 2% gross overriding royalty on ATP 324P, Cairns, Australia (3 million acres).
3. 5% carried interest through the first year of exploration on ATP 306P, Cape York, Australia (6.5 million acres).

Consolidated Balance Sheet

as at September 30, 1982

	1982 $	1981 $
ASSETS		
CURRENT ASSETS		
Cash	**147,843**	51,333
Accounts receivable (note 4)	**247,289**	208,698
Inventory	**63,000**	65,000
Marketable securities — at lower of cost and quoted market value $61,040 — 1981 $195,000 (note 5)	**61,040**	161,927
Due from a related party (note 8)	**330,557**	
	849,729	486,958
PROPERTY AND EQUIPMENT — at cost (notes 3, 4, 6, 8 and 13)	**3,375,081**	4,926,920
NOTES RECEIVABLE, less current portion (note 9)	**—**	403,000
OTHER ASSETS	**2,500**	2,500
	4,227,310	5,819,378

SIGNED ON BEHALF OF THE BOARD

Director

Director

	1982 $	1981 $
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**293,584**	399,574
Dividend payable	**38,097**	43,874
Due to related parties (note 8)	**603,958**	1,331,256
Obligations under capital lease, current portion	**26,500**	21,000
	962,139	1,795,704
LONG-TERM DEBT		
Bank loan (note 4)	**1,300,000**	1,116,200
Obligations under capital lease, less current portion (note 7)	**124,674**	153,863
Advances from a shareholder (notes 8 and 13)	**1,378,440**	
Accrued interest payable to a shareholder (note 8)	**227,895**	
	3,031,009	1,270,063
	3,993,148	3,065,767
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (notes 9 and 13)		
Authorized — 10,000,000 shares without nominal or par value		
Issued and fully paid — 4,655,262 shares (1981 — 4,755,262 shares)	**4,540,110**	4,943,110
DEFICIT (note 3)	**4,305,948**	2,189,499
	234,162	2,753,611
	4,227,310	5,819,378

Consolidated Statement of Loss

For the Year Ended September 30, 1982

	1982 $	1981 $
INCOME		
Production — mine	**1,751,396**	2,176,078
— oil and gas (including Alberta Royalty Tax Credit and net of P.G.R. Tax)	**696,486**	228,800
	2,447,882	2,404,878
EXPENSES		
Production — mine	**1,255,864**	1,651,553
— oil and gas	**93,185**	80,243
Dividend minting		128,935
General and administrative	**335,951**	259,394
Interest — long-term debt	**264,900**	131,293
— current	**212,896**	105,107
Lease rentals	**2,557**	6,617
	2,165,353	2,363,142
EARNINGS BEFORE OTHER CHARGES	**282,529**	41,736
OTHER CHARGES		
Depletion and depreciation — mine	**1,639,900**	1,987,050
— oil and gas	**131,052**	89,029
Dry holes and abandonments — oil and gas	**744,426**	453,689
Mining claims abandoned	**18,500**	96,998
	2,533,878	2,626,766
	(2,251,349)	(2,585,030)
OTHER INCOME (EXPENSES)		
Gain (loss) on sale of marketable securities	**(25,903)**	52,965
Gain on sale of interests in oil and gas properties	**219,079**	24,392
Loss on write-down of marketable securities	**(58,276)**	
	134,900	77,357
	(2,116,449)	(2,507,673)
RECOVERY OF DEFERRED INCOME TAXES	**—**	481,000
LOSS FOR THE YEAR	**2,116,449**	2,026,673

Consolidated Statement of Deficit

For the Year Ended September 30, 1982

	1982 $	1981 $
DEFICIT (RETAINED EARNINGS) — BEGINNING OF YEAR		
As previously reported	**2,379,499**	(72,767)
Prior period adjustment (note 3)	**(190,000)**	
	2,189,499	(72,767)
Loss for the year	**2,116,449**	2,026,673
	4,305,948	1,953,906
Dividend		235,593
DEFICIT — END OF YEAR	**4,305,948**	2,189,499

Consolidated Statement of Changes in Financial Position

For the Year Ended September 30, 1982

	1982 $	1981 $
SOURCE OF WORKING CAPITAL		
Provided from operations —		
Loss for the year	**(2,116,449)**	(2,026,673)
Items not affecting working capital —		
Depletion and depreciation — mine	**1,639,900**	1,987,050
— oil and gas	**131,052**	89,029
Dry holes and abandonments — oil and gas	**744,426**	453,689
Mining claims abandoned	**18,500**	96,998
Gain on sale of petroleum and natural gas properties	**(219,079)**	(24,392)
Deferred income taxes		(481,000)
	198,350	94,701
Advances from a shareholder	**1,378,440**	
Accrued interest payable to a shareholder	**227,895**	
Proceeds from sale of properties	**680,827**	108,405
Increase in bank loan	**183,800**	832,227
Proceeds on issuance (cancellation) of capital stock	**(403,000)**	1,493,000
Less: conversion of subordinated debenture to capital stock		(450,000)
notes receivable on issuance (cancellation) of capital stock	**403,000**	(403,000)
Net changes in other assets and liabilities		52,963
	2,669,312	1,728,296
USE OF WORKING CAPITAL		
Additions to property and equipment	**1,443,787**	2,676,629
Dividend		235,593
Obligations under capital lease	**29,189**	
	1,472,976	2,912,222
INCREASE (DECREASE) IN WORKING CAPITAL DEFICIENCY	**(1,196,336)**	1,183,926
WORKING CAPITAL DEFICIENCY — BEGINNING OF YEAR	**1,308,746**	124,820
WORKING CAPITAL DEFICIENCY — END OF YEAR	**112,410**	1,308,746

Notes to Consolidated Financial Statements

For the Year Ended September 30, 1982

1. BASIS OF PRESENTATION

The recoverability of the amounts shown for mining properties and related costs and the continued operation of the Company as a going concern is dependent upon the ability of the Company to obtain necessary financing to complete the development of its mining properties and upon future profitable production.

2. ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of Peregrine Petroleum Ltd. and its wholly-owned subsidiary, Peregrine Petroleum Inc.

Petroleum and natural gas properties

The Company's accounting policy is to capitalize acquisition costs attributed to petroleum and natural gas properties. When properties are surrendered, the costs are written off as an expense in the year of abandonment. Lease rentals are expensed when incurred. Costs of drilling and equipping successful exploratory and development wells are capitalized. Gains or losses on dispositions of petroleum and natural gas properties are included in income and the costs of dry holes and abandonments are expensed.

Depletion and depreciation of the acquisition and development costs of producing properties and production equipment are calculated using the unit-of-production method, based upon proven recoverable reserves.

Mining properties

Acquisition costs and exploration and development expenditures relating to mining properties are deferred until the properties are brought into commercial production, at which time they are depleted on a unit-of-production basis, or until the properties are abandoned or sold, at which time the related costs are written off.

Joint ventures

Substantially all of the Company's exploration and production activities are conducted jointly with others and the accounts reflect only the Company's proportionate interest in such activities.

Inventory

Inventory represents unsold gold and is valued at net realizable value which is less than cost.

Capital leases

Where the Company acquires an asset through a lease under which substantially all the benefits and risks of ownership of the asset pass to the Company, the Company accounts for such a lease as a capital lease. The asset is recorded on the balance sheet at the lower of its fair market value and the present value of the future lease payments and a corresponding liability is set up as an obligation under a capital lease.

Translation of foreign currencies

Current assets and liabilities are translated into Canadian dollars at year-end exchange rates and non-current assets and liabilities at the exchange rates prevailing when the assets were acquired or the liabilities incurred. Revenue and expenses with the exception of depreciation and depletion are translated at the average annual rates of exchange. Depreciation and depletion are translated at the rates used in the translation of the relevant asset accounts. Gains or losses resulting from exchange adjustments are included in net earnings.

3. PRIOR YEAR ADJUSTMENT

Certain transactions relating to the ongoing development of the Company's mining properties were expensed in the prior year. As a result of restating these expenditures estimated at $410,000 as additions to mining properties, mine production expenses were reduced by the same amount, depletion increased by $220,000 and the deficit decreased by $190,000.

4. BANK LOAN

Book debts and production proceeds from certain petroleum and natural gas properties have been pledged as security for the bank loan, which bears interest at 1% above the Company's bank's prime lending rate. In addition the bank loan is secured by 625,000 shares of the Company owned by the Company's president who is also the Company's major shareholder.

Although the bank loan is subject to call on demand, the Company does not anticipate repayment within the next twelve months.

5. MARKETABLE SECURITIES

The marketable securities consist of the following:

	1982		1981	
	#	$	#	$
Tyee Lake Resources Ltd. (N.P.L.)	**56,000**	**15,680**	56,000	66,117
The Mosquito Creek Gold Mining Company Limited	**56,000**	**45,360**	85,600	36,608
Maxville Mines Ltd.			15,000	5,000
Marietta Resource Corporation			75,000	54,202
		61,040		161,927

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation and Depletion	Net Investment 1982	Net Investment 1981
	$	$	$	$
Petroleum and natural gas				
Properties	2,328,251	256,680	**2,071,571**	2,282,238
Production equipment	455,393	90,121	**365,272**	400,053
	2,783,644	346,801	**2,436,843**	2,682,291
Mineral				
Properties	3,367,300	2,628,526	**738,774**	1,653,523
Production equipment	1,205,813	1,028,424	**177,389**	561,854
	4,573,113	3,656,950	**916,163**	2,215,377
Office equipment	44,318	22,243	**22,075**	29,252
	7,401,075	4,025,994	**3,375,081**	4,926,920

7. OBLIGATIONS UNDER CAPITAL LEASE

The following is a schedule of the future minimum lease payments of the capital leases, together with the balance of the obligations. Leases expire between 1983 and 1985.

	$
Year ending December 31, 1983	62,748
1984	39,554
1985	78,064
Total minimum lease payments	180,366
Less: amount representing interest at 16% to 18%	29,192
	151,174
Less: current portion	26,500
	124,674

8. RELATED PARTY TRANSACTIONS

(a) The Company's major shareholder and president is the major shareholder of Camac Explorations, Inc., (Camac), a privately-owned company and is also the president of The Mosquito Creek Gold Mining Company Limited (Mosquito Creek), a publicly-traded company which is the operator of a gold mine in which the Company has a 50% working interest. During the year, the Company received $45,000 (1981 — $ Nil) from Mosquito Creek as compensation for management services. Amounts owing from Mosquito Creek are receivable upon demand and bear interest at the bank prime rate plus 1%. The balance owing from Mosquito Creek at September 30, 1982 is $330,557 (1981 — $ Nil).

The Company participates with Camac in the exploration and development of petroleum and natural gas properties. During the year the Company expended $48,000 (1981 — $106,000) on petroleum and natural gas properties in which Camac has an interest. In addition, the Company received $3,000 (1981 — $88,000) in net production revenue and $163,354 (1981 — $ Nil) in sale proceeds from petroleum and natural gas properties jointly held with Camac. The balance owing to Camac at September 30, 1982 is $457,700 (1981 — $423,544).

(b) The advances from a shareholder and $146,258 (1981 — $21,560) included in due to related parties are subject to interest at the rate paid by the Company to the bank. Although the advances are subject to call on demand, the shareholder has agreed not to demand payment within the next twelve months.

(c) The Company is dependent upon its major shareholder for financial support of operations and advances for capital expenditures.

9. CAPITAL STOCK

On October 24, 1980, 100,000 shares were issued to directors of the Company at a price of $4.03 per share, the amount to be paid over a five year period in equal annual instalments without interest; the shares to be held in trust until paid in full.

During the year, this agreement was cancelled and the note receivable and capital stock were reversed from the accounts.

10. LOSS PER SHARE

	1982 $	1981 $
Basic loss per share for the year	**(0.45)**	(0.49)

Earnings per share are calculated using the weighted monthly average number of shares outstanding during the respective fiscal years.

11. STATUTORY INFORMATION

The aggregate direct remuneration paid or payable by the Company to the directors and officers of the Company amounted to $28,500 (1981 — $ Nil).

12. SEGMENTED INFORMATION

	Canada $	United States $	Consolidated $
1982			
SEGMENT OPERATING LOSS (PROFIT)			
From oil and gas	**(204,343)**	**345,468**	
From mining	**1,162,868**	**334,660**	
	958,525	**680,128**	**1,638,653**
GENERAL CORPORATE EXPENSES			
Interest			**477,796**
LOSS			**2,116,449**
IDENTIFIABLE ASSETS			
Mining	**1,246,720**		**1,246,720**
Oil and gas	**1,622,041**	**1,358,549**	**2,980,590**
	2,868,761	**1,358,549**	**4,227,310**
1981			
SEGMENT OPERATING LOSS			
From oil and gas	340,310	88,472	
From mining	1,754,020	88,471	
	2,094,330	176,943	2,271,273
GENERAL CORPORATE EXPENSES			
Interest			236,400
Income taxes			(481,000)
LOSS			2,026,673
IDENTIFIABLE ASSETS			
Mining	2,594,788	378,198	2,972,986
Oil and gas	2,480,319	366,073	2,846,392
	5,075,107	744,271	5,819,378

13. SUBSEQUENT EVENT

Subsequent to year-end, the Company issued a $1,500,000 floating charge convertible debenture in favour of amounts advanced by a shareholder. Interest is calculated daily at the Company's bank's prime lending rate on unpaid amounts advanced under this debenture, payable semi-annually commencing on July 1, 1983. The debenture is convertible in whole or part at the option of the shareholder into fully paid and non-assessable no par value common shares of the Company, at one share for each $0.75 of principal and interest due under the debenture. The assets of the Company beyond those pledged to the bank, are security in favour of amounts owing on this debenture.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Peregrine Petroleum Ltd. as at September 30, 1982 and the consolidated statements of loss, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1982 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Calgary, Alberta
February 23, 1983

Chartered Accountants

PEREGRINE PETROLEUM LTD.

Annual Report 1982

Ronalds Western

Printed in Canada